

Message Text

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ORIGIN SS-25

INFO OCT-01 ISO-00 /026 R

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APPROVED BY NEA - HHSAUNDERS

PM:TSTERN

S/S - MR. LUERS

NEA/IAI-MR. SMITH

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R 301745Z OCT 74

FM SECSTATE WASHDC

TO AMEMBASSY TEL AVIV

S E C R E T STATE 238218

EXDIS

E.O. 11652: GDS

TAGS: EAID, MASS, IS

SUBJECT: ISRAEL'S FUTURE ASSISTANCE NEEDS

1. ISRAELI EMBASSY ECON MINISTER SHER CALLED ON PM DIRECTOR VEST OCT 22 TO ACQUAINT HIM IN ADVANCE WITH MAIN THRUST OF GOI'S FORTHCOMING ANNUAL "COLORED PAPER" STUDY OF ISRAEL'S ECONOMIC POSITION AND NEEDS. SHER SAID THIS YEAR'S COLORED PAPER SHOULD BEAR BLACK COVER SINCE ITS CONTENTS PAINT DARK PICTURE OF ISRAELI ECONOMY. SHER SAID ONLY GOOD NEWS ON ISRAELI ECONOMIC SCENE OF LATE HAS BEEN PLACEMENT WITH MIDWESTERN BANK OF REMAINING USG-GUARANTEED GOI PROMISSORY NOTES TO CLEAR UP FY-74 FMS CREDIT PROGRAM.

2. SHER SAID THAT FINANCING NEEDED FOR MATMON-B LIST OF MILITARY REQUIREMENTS IS IN ADDITION TO NEEDS HE WOULD OUTLINE FOR VEST. SHER CONTINUED THAT IN CALENDAR YEARS 75, 76 AND 77 ISRAEL WOULD MAKE CASH PURCHASES FROM US OF DOLS 1.5 BILLION, DOLS 2.5 BILLION AND DOLS 1.7 BILLION RESPECTIVELY. OF THIS DOLS 5.7 BILLION TOTAL SHER SAID ISRAEL WOULD BE ABLE TO COVER ONLY DOLS 2.1 (INCLUDING NORMAL USG ASSISTANCE PROGRAM LEVELS), LEAVING DEFICIT

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OF DOLS 3.6 BILLION WHICH ISRAEL WOULD NEED TO GET FROM US

AS GRANT AID. SHER PREDICTED THAT AT PRESENT RATE OF USE
ISRAEL'S FOREIGN EXCHANGE (DOWN DOLS 700 MILLION AS OF

SEPT FROM DOLS 1.7 BILLION AT END OF 73), ISRAEL WOULD
HAVE NO FOREIGN EXCHANGE RESERVE BY END OF CALENDAR 1975.
HE ADDED THAT ISRAEL'S FOREIGN DEBT HAS RISEN TO DOLS 5.6
BILLION SINCE JAN 1 AND, WITH PROJECTED CY-75 EXPORTS OF
DOLS 3.9 BILLION AND IMPORTS OF DOLS 7.8 BILLION, ISRAEL
FACES A CY-75 DEFICIT DOLS 1 BILLION GREATER THAN PRE-
VIOUSLY EXPECTED. OUTLOOK FOR CY-76 EVEN WORSE, ACCORD-
ING SHER, WHO SAID IMPORTS THEN WOULD REACH DOLS 8.5
BILLION, EXPORTS DOLS 4.6 BILLION WHICH, WITH DOLS 800
MILLION IN "OTHER DRAINAGE" (PRESUMABLY DEBT SERVICING)
WOULD MAKE CY-76 DEFICIT OF DOLS 4.7 BILLION. SHER SAID
ISRAEL HOPES USG WILL BE ABLE COVER (PRESUMABLY BY GRANT
AID) 2.1 BILLION OF THIS GAP, WHICH STILL WOULD LEAVE
ISRAEL DOLS 2.6 BILLION SHORT OF FOREIGN EXCHANGE. SHER
ADDED THAT EXPORTS, BOND SALES, AND CONTRIBUTIONS ARE
ALL DOWN AND THAT BELT-TIGHTENING MEASURES TAKEN THUS
FAR BY GOI ARE NOT ENOUGH TO TURN THIS GLOOMY OUTLOOK
AROUND IN COMING FEW YEARS.

3. SHER DREW POSSIBLE CONCLUSIONS FROM FOREGOING ANALYSIS.
HE SAID ISRAEL WOULD NEED MORE BELT TIGHTENING AND
MASSIVE ASSISTANCE SINCE PROSPECTS ARE NIL THAT EXPORTS
COULD BE INCREASED ENOUGH IN THIS TIME FRAME TO COVER GAPS
NOW FORESEEN. SHER SAID GOI IS CONCERNED THAT ARABS WILL
LEARN OF ISRAEL'S ECONOMIC TROUBLES AND BECOME EVEN MORE
INFLEXIBLE IN BELIEF THAT, IF THEY JUST WAIT, ISRAEL WILL
COLLAPSE INTERNALLY. SHER ALSO EXPRESSED CONCERN THAT
IF ISRAEL'S ECONOMY IS ALLOWED TO SINK TO LEVEL HIS
FIGURES INDICATE IS POSSIBLE, INTERNAL UNREST IN ISRAEL
WILL BE RESULT AND THIS INEVITABLY WILL LIMIT ISRAEL'S
FOREIGN POLICY FLEXIBILITY.

4. IN SEPARATE CONVERSATIONS WITH DEPTOFF ISRAELIS HAVE
CAUTIONED THAT FORECAST OF EXHAUSTION OF ISRAELI FOREIGN
EXCHANGE RESERVES BY END 1975 HAS NOT BEEN RELEASED IN
ISRAEL AND GOI CONSIDERS THIS INFORMATION HIGHLY CONFI-
DENTIAL. ISRAELIS ALSO SAID THAT GOI EXPECTS TO BE ABLE
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TO PRESENT USG WITH "COLORED PAPER" IN ABOUT THREE WEEKS.
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